

# **CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT**

## **INVESTMENT POLICY STATEMENT**

### **1. FUND CHARACTERISTICS AND CONSTRAINTS.**

The City of Bismarck Deferred Sick Leave Account ("Fund") represents money set aside to cover the City's unfunded liability of employees' accrued sick leave. People who terminate employment with the City shall be compensated for unused sick leave from this Fund. In time, it is expected that the Fund will become depleted.

### **2. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB)**

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

### **3. INVESTMENT OBJECTIVES.**

The investment objectives of the Fund reflect moderate risk tolerance and short-term liquidity needs. The self-liquidating feature of the Fund is also recognized.

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations. Cash equivalent investments shall be used to achieve this objective.

#### **4. STANDARDS OF INVESTMENT PERFORMANCE.**

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 10% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 10% First Boston convertible securities index, 60% Lehman Government/Corporate domestic bond index, and 5% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should be consistent with that of the policy portfolio.

#### **5. POLICY AND GUIDELINES.**

The asset allocation of the City of Bismarck Deferred Sick Leave Account is established by the City of Bismarck. Asset allocation is based upon the appraisal of projected liquidity requirements and sick leave payment demand, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	10 %
Small Cap Domestic Equity	5 %
Convertible Bonds	10 %
International Equity	10 %
Fixed Income	60 %
Cash Equivalents	5 %

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No short sales or margin purchases shall be made.


**6. EVALUATION AND REVIEW.**

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers hired by the SIB will be evaluated by the Board quarterly. In-state meetings will be held with the money managers at least annually.

**Approved by:**

**CITY OF BISMARCK**

  
Chuck Klein, Director  
Department of Human Resources

Date: 6-22-99

**STATE INVESTMENT BOARD**

  
Scott Engmann  
Executive Director, RIO

Date: June 14, 1999



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## Memo

**To:** Chuck Klein, City of Bismarck Deferred Sick Leave Fund

**From:** Connie Flanagan *cf*

**Date:** March 2, 2004

**Re:** Adjustment to Investment Guidelines

We are in the process of reviewing all of the Investment Guideline Statements for the funds invested by the State Investment Board (SIB). We would like to request a change in the language in Section 5 of your statement regarding allowable investments.

In subsection "a." we would like to change the policy "No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used." We recommend changing it to, "Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation."

In subsection "e." we would like to change the policy "No short sales or margin purchases shall be made." We recommend changing it to, "No unhedged short sales or speculative margin purchases shall be made."

These changes will facilitate the hiring of an additional large cap domestic equity manager who utilizes a futures strategy in an enhanced index portfolio. In the essence of time, we request that you indicate your approval of this change by signing below and returning this memo to us. You may want to keep a copy for your records. We will send out complete revised guidelines statements in the near future.

I approve of the changes indicated above. Signed

*Charles J. Klein*

Date

*3-10-04*